

October 24, 2018

Judge Laura Taylor Swain
United States District Court for the District of Puerto Rico
Federal Court of PR Office 150, Federal Building
San Juan, Puerto Rico 00918

cc: Rep. Rob Bishop of Utah, Chairman
United States House of Representatives
Committee on Natural Resources
Washington, DC 20515

cc: The Bank of New York Mellon
Attn: Mr. Alex Chang
101 Barclay Street
New York, NY 10286

Dear Judge Swain,

AS A WELL-INFORMED COFINA SUBORDINATE BONDHOLDER “I OBJECT” TO THE OVERSIGHT BOARD’S PROPOSED COFINA PLAN OF ADJUSTMENT: THIS DISCHARGE OF COFINA DEBT IS FRAUDULENT AND INTENDED TO DEPRIVE SECURED BONDHOLDERS OF PAYMENT.

PROMESA specifically states Title VI negotiations are indispensable for eligibility into Title III... COFINA was not eligible to enter Title III because it was never in Title VI, therefore, the COFINA Plan of Adjustment is not legal, the Plan cannot be put to a vote and cannot be approved by the Court. Should the Court approve the Plan...PROMESA is a failure.

The Latest Puerto Rico Fiscal Plan (created without audited financials) and COFINA Plan of Adjustment blatantly abuse the intent of PROMESA as both, if approved by the Court, will reward HYPOCRISY, CORRUPTION and TREACHERY.

The passage of PROMESA was initiated by a need for Fiscal discipline and transparency within Puerto Rico. The purpose of the Oversight Board is to provide a method for a covered territory to achieve Fiscal responsibility and access to Capital Markets. Congress determined the Commonwealth’s financial house must be placed in order to remedy the decades of financial mismanagement that led to the present crisis. Congress required the Commonwealth to deal fairly with its existing creditors and respect their rights to enable conditions by which Puerto Rico could obtain market access at reasonable rates. The above was taken from Rep. Rob Bishop’s Amicus Brief filed 6/29/2018 with the U.S. Court of Appeals for the First Circuit.

Rep. Bishop clearly stated “PROMESA built Fiscal Reform and creditors protection into the requirements for a Fiscal Plan. Among other provisions, a Fiscal Plan “shall” respect the relative lawful priorities or lawful liens in place prior to enactment of PROMESA, and ensure that the assets of one territorial instrumentality are not transferred or used for the benefit of another.”

In the opinion of many Puerto Rico observers the Puerto Rico government and Oversight Board have blatantly abused the intent of PROMESA and have demonstrated PROMESA is a failure.

Claims of apparent HYPOCRISY, CORRUPTION and TREACHERY are supported by the following:

HYPOCRISY: During the 2006 Puerto Rico financial crisis the Commonwealth created COFINA. Investors had lost confidence in the Puerto Rico government’s ability to manage the finances of the Commonwealth. Since investors did not trust the Puerto Rico government the Commonwealth could not access the bond market at reasonable rates. The main components of COFINA bonds that attracted investors were a **Statutory Lien** on

pledged Sales Tax revenue and the fact that this dedicated revenue source was not available under any circumstances to the Puerto Rico government, who had lost the trust of investors. For the next 10 years the Puerto Rico government under 3 governors, legislatures and Department of Justices continued to assure COFINA bondholders and inform General Obligation bond investors that pledged COFINA revenues secured by a **Statutory Lien** were not available to the Commonwealth.

Today the Financial Oversight Board supported by the Puerto Rico government formally announced a Plan of Adjustment/Restructuring of COFINA debt. COFINA bondholders would receive new COFINA bonds secured by the same **Statutory Lien**. Senior bondholders will receive a 93% recovery and Subordinate bondholders who are secured by the same **Statutory Lien**, will receive only a 56% recovery. I repeat current COFINA bondholders will receive new COFINA bonds secured by the same **Statutory Lien** that previously guaranteed that pledged revenues were unavailable to the Commonwealth. It is very difficult for Subordinate bondholders to accept that a Court of law would approve the Plan of Adjustment.

The Puerto Rico government promised and passed laws that assured that all COFINA bondholders are secured by a Statutory Lien. Recently the Puerto Rico government passed a new law. The new law allows the Puerto Rico government the ability to take \$425 million annually from COFINA bondholders, mainly Subordinate bondholders. **Puerto Rico has the equivalent of a third world rogue government the U.S. cannot or refuses to control. Therefore the U.S. must be held responsible for the actions of the morally corrupt Puerto Rico government.**

For 10 years Puerto Rico correctly stated payment on COFINA bonds is secure, now they say it is not secure. The irony is the new and future COFINA bonds will be [secured?] by the same **Statutory Lien**. The Hypocritical Oversight Board expects current Subordinate bondholders to accept a 56% recovery while they intend to offer future COFINA investors new Subordinate COFINA bonds at **100**. The Board and government seem to be out of touch with reality. There are very few, if any, individual retail investors who will trust Puerto Rico again. It is unclear how many COFINA bonds hedge fund insiders purchased during negotiations, which means before the deal was publicly announced.

CORRUPTION: Most professionals that follow Puerto Rico government actions would agree the Puerto Rico government is corrupt. A recent court filing claims over \$1 billion in fraudulent profits appear to have been pocketed by PREPA and its complex cartel. The claim alleges PREPA violated the RICO Act by overcharging customers (the Puerto Rico people) for fuel surcharges. This is just one example of hundreds of fraudulent contracts, jobs, illegal payments and FBI investigations that are ongoing and commonplace within the corrupt government. There is also a condoned underground economy equal to over 20% of the **lawless** Island's GDP.

TREACHERY: In March 2014 Puerto Rico issued \$3.5 billion of General Obligation bonds. The Official Offering Statement, as in previous General Obligation Official Statements, clearly stated COFINA dedicated revenue funds were not available to the General Fund of the Commonwealth. Prior to issuing the bonds the Commonwealth in January 2014 hired a restructuring firm without disclosing the hire to prospective investors. Approximately 1 year later Governor Padilla told the NY Times, Puerto Rico's debt is not payable. In essence it appears to many that Puerto Rico knew in March 2014 it would not be able to pay or would not be willing to pay this debt. **In essence Puerto Rico took \$3.5 billion from investors with no intention of paying it back.** It has become obvious a pattern of treachery, in form of fraudulent financials, can now be associated with many Puerto Rico debt issues. A former Puerto Rico governor called Puerto Rico debt a Ponzi scheme.

The above are an oversimplification of the **HYPOCRISY, CORRUPTION and TREACHERY** the government and Oversight Board have allowed or overlooked. The above examples are well documented and difficult to refute. **They would like bondholders to accept there are crimes, but there are no criminals.**

Puerto Rico debt restructuring has become a fiasco. During the process bondholders taking part in the negotiations, privy to non-public information, appear to have been allowed to unethically buy and sell specific bonds to strengthen their voting position. The process, if not investigated, will insure PROMESA will be a failure.

The whole situation seems illegal/unconstitutional and gets more ridiculous as the Court allows Puerto Rico to pay no interest to bondholders even though it now holds well over \$10 billion in cash due bondholders. Adding insult to bondholder injury, without the insight of audited financials, the Federal Oversight Board published another Fiscal Plan for the Commonwealth, without financials and being as negative as possible to bondholders. However, the new Plan illustrates that with a few realistic adjustments/reforms, expense caps and by including additional Medicaid payments Puerto Rico has the capacity to pay its contracted debt.

The major COFINA players still standing are hedge funds. These hedge funds now own billions of face value of COFINA bonds that individuals sold at very distressed prices, some sold bonds as low as 9 cents on the dollar. Individuals who were ill-advised and frightened by the Puerto Rico government's scare tactics lost billions of dollars. The U.S. government and the Court must assume some liability. The losses were incurred by innocent individuals, the victims of a manipulated process the U.S. and the court has allowed.

Rep. Rob Bishop and many in the US Congress are aware that everything mentioned in my objection to the COFINA Plan of Adjustment is real. The Oversight Board has been in place for well over 2 years and the last audited Commonwealth Financial Statement is for Fiscal 2014. Puerto Rico's self-proclaimed bankruptcy cannot be confirmed and should not be accepted as real without a current Audited Financial Statement, which is required by PROMESA. The Financial Oversight's financial projections have proven the Board to be as incompetent and dishonest as the Puerto Rico government. By Congress not addressing Puerto Rico's abuse of PROMESA they are supporting not only political corruption; they are forcing bondholders and the Puerto Rico people to continue to accept corruption and deception as the norm in Puerto Rico.

The U.S. government knows Puerto Rico is corrupt and unwilling to make a sincere effort to pay its debt. **Sophisticated investors now know Puerto Rico is corrupt** and unwilling to pay its debt. **Investors around the world now know Puerto Rico cannot be trusted** to honor contracts. **Allowing Puerto Rico and the Oversight Board to continue to disregard the intent of PROMESA makes the United States Congress responsible for the Puerto Rico government's actions and the actions of the Oversight Board** appointed by the U.S. Congress to enforce U.S. laws including PROMESA.

The U.S. Congress made Puerto Rico bonds triple tax exempt, therefore, the U.S. Congress is responsible to Puerto Rico bondholders for not monitoring Puerto Rico debt issuance and not demanding PROMESA be followed as Congress intended.

To date the Title III bankruptcy court seems to have ignored Rep. Bishop's Amicus Brief, which explained the intent of PROMESA. **Many bondholders believe the Title III Court has exasperated the Title III process.** The Court allowed the Oversight Board to place a solvent COFINA directly into Title III bankruptcy, completely bypassing PROMESA required Title VI negotiations.

It would be seen as criminal to many if the Court approves any Plan of Adjustment based only on the Financial Oversight Board's projections. For the first 3 months of the 2018/2019 fiscal year the Board's projections were off over \$350 million. The main driver being the corporate income tax category, which the Board and government said was suspect. **No Plan of Adjustment can be approved without clean audited current Commonwealth financials, most recent audited financials are from 2014.**

The Financial Oversight Board has established a \$1.5 billion war chest (bondholders money) to pay lawyers to fight bondholders. With that type of intimidation, which the Court has allowed, it is impossible for unrepresented and disorganized Subordinate COFINA bondholders to get legal counsel to represent them.

It appears Subordinate COFINA bondholders, who held the highest rated and were told by Puerto Rico the most secured debt issued by Puerto Rico, have no choice other than to rely on the court system.

When the Court takes control of the situation by ordering Puerto Rico to pay interest on its debt the nonsense will cease and good faith consensual agreements will get done.

Respectfully yours,

Maria Mercedes Navia

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